Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	))	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing an Unified Intercarrier Compensation Regime	))	CC Docket No. 01-92

COMMENTS

of

FRED WILLIAMSON & ASSOCIATES, INC.

I. COMMENT SUMMARY

In Appendix A of the Notice of Proposed Rulemaking (NPRM), the Commission has proposed rules for a number of near term Universal Service Fund (USF) changes. The Commission has also indicated that this proceeding is, and will be "data driven" and has requested that carriers provide data necessary to evaluate these proposals. In response to this request, FWA is providing the attached data and analysis of the Appendix A proposals for a number of rural Rate of Return (RoR) Incumbent Local Exchange Carriers (ILECs). This analysis makes two very clear points:

1. Many rural RoR ILECs are, because of existing Commission rules (High Cost Loop Fund [HCLF] cap) and inaction on Intercarrier Compensation (ICC) reform, struggling to maintain a sufficient revenue stream to provide quality basic and broadband services at reasonable rates and to pay the interest and principal on loans incurred for network deployment.
2. If the Commission were to adopt the proposals contained in Attachment A of the NPRM, the attached analysis shows a near term loss of approximately 60% of the rural RoR ILEC's USF revenues, resulting in negative rates of return and Times Interest Earned Ratio (TIER – net income plus interest divided by interest) ratios dropping to levels indicating that the rural RoR ILECs cannot pay back the debt it has incurred to build its network.

The loss of these revenues on top of the already difficult financial situation will be the final "nail in the coffin" for these ILECs and will make it impossible for these rural ILECs to:

- Pay for expenses and salaries, as well as principal and interest payments on loans made for network investments.

- Continue the investments necessary to upgrade their network so that all their consumers have access to high quality basic and broadband service access at affordable rate levels.
- Continue to maintain the network so that quality service is provided and a Carrier of Last Resort (COLR) is available.

Quite likely, loss of these revenues will ultimately result in many rural RoR ILECs going through bankruptcy and out of business. The effect on the rural communities they serve will be devastating:

- There will be significant harm to rural economic development – businesses and residential customers would no longer have access to high quality voice and broadband service at affordable rate levels that are comparable to those offered in urban areas.
- Hospitals, clinics and schools would be disadvantaged – inability to obtain reliable high speed broadband service.
- Jobs at rural RoR carriers will be lost. Indirectly, jobs for suppliers and businesses that provide services to the rural RoR ILEC will be lost. This will have a secondary impact on businesses operating in rural communities. The salaries from individuals that lose jobs will no longer be available to purchase goods and services in rural community businesses.
- Loss of rural community tax base and revenues paid to other rural utilities (gas, electric and water), further harming the ability of the rural community to remain viable.

Beyond the fact that there is little basis for the proposed "near term" changes, the most damaging aspect of these proposals is that they change the revenue recovery rules of a network that has already been deployed. In other words, the proposals are **<u>effectively a retroactive disallowance of cost recovery.</u>** The Commission has provided no credible basis for these retroactive disallowances of cost recovery that was provided under existing Commission rules and was relied on by the ILEC and lending institutions such as the Rural Utilities Service (RUS) to make loans to the ILEC.

Because of their major negative consequences, the “near term” proposals in Appendix A of the NPRM should not be adopted. Instead, the Commission should consider and adopt the proposal developed by the rural ILEC Associations that (a) works within the objectives set forth by the Commission in the NPRM, and (b) provides sufficient and predictable USF revenues to:

- Recover the cost of, and maintain network facilities already deployed or committed to deploy through the American Reinvestment and Recovery Act (ARRA).
- Support future investments, with reasonable cost constraints.
- Provide quality voice and broadband services with rates and services that are comparable to those offered in urban areas.

II. BACKGROUND REGARDING RURAL RoR ILEC OPERATIONS

FWA provides consulting services for small rural RoR ILECs in a number of States. Each of these rural RoR ILECs:

- Operates in rural areas with low customer densities and high service cost. Communities within these service areas generally do not have services found in more urban areas – often they do not have hospitals, grocery stores, shopping centers, libraries, etc.
- Is an Eligible Telecommunications Carrier (ETC) and the COLR for the customers in the service area. Wireless and satellite service may be available in portions of the area served by these ILECs, but these services generally provide poor coverage and quality, and low data speeds. Cable service is often not available, and if it is, serves only community centers and does not serve as a COLR, but only offers service when and where it chooses.

As a consequence, business and residential customers in the ILECs' service areas rely heavily on the rural RoR ILECs' telecommunications services not only for communications, but for health, safety, educational and high speed data needs.

- Operates under RoR regulation in both the Federal and State jurisdictions and is subject to State Commission audits of its earnings. As a RoR carrier, all of the rural ILECs' regulated rates charged to retail and wholesale customers are tariffed and approved by either the Federal or State regulators.
- Has invested or will invest in significant network upgrades to provide state of the art facilities capable of providing both basic (voice) and advanced (broadband) services to its customers.
- Provides basic and advanced services at affordable rate levels, comparable to the rate levels for these services in urban areas.

In these Comments, FWA will address (a) the near term proposals affecting rural RoR ILECs contained in Appendix A of the NPRM and (b) provide specific financial analysis, as requested by the Commission to show the devastating effect of the proposals on rural RoR ILECs and the communities and customers they serve.

FWA, and the rural RoR ILECs it provides services for, support the goal of providing high speed broadband access to all Americans. Rural RoR ILECs have been, and are making every effort to deploy networks capable of providing both voice and high speed broadband access to all of the customers in their service areas. Without the recognition of the need to recover high costs of serving rural and remote areas, any plan to deploy broadband will fail in rural service areas.

III. THE NEAR TERM NPRM USF REFORM PROPOSALS WILL IRREPARABLY HARM RURAL ILECS AND THEIR COMMUNITIES AND IMPEDE, NOT ADVANCE THE GOAL OF UNIVERSAL BROADBAND AVAILABILITY

A. SUMMARY OF CHANGES PROPOSED IN APPENDIX A OF THE NPRM THAT, WILL SUBSTANTIVELY REDUCE RURAL ROR ILEC REVENUES AND DO NOT PROVIDE SUFFICIENT HIGH COST SUPPORT FUNDING

The NPRM proposes the following changes affecting the revenue that rural RoR ILECs have available to recover the costs of maintaining and deploying networks capable of providing basic and broadband services at affordable rates to all of the customers in their service areas[1]:

1. Phase out Safety Net support by 1-1-2015.
2. Phase out Local Switching Support (LSS) by 1-1-2014.
3. Eliminate Corporate Operations Expense from all Federal Support mechanisms [HCLF, LSS and Interstate Common Line Support (ICLS)] by 1-1-2014.
4. Cap overall Federal support at $3,000 per line annually; Effective date - 1-1-2012.
5. For ILECs with less than 50,000 lines, reduce the High Cost Loop Fund (HCLF) support allocation to interstate from 75% to 65% for loop costs in excess of 150% of the nationwide average cost per loop; and from 65% to 55% for loop costs between 115% and 150% of the nationwide average cost per loop; Effective date – 1-1-2012.

To attempt to justify these retroactive rule changes[2], the NPRM makes the following unsubstantiated assertions. The proposals will:

[1] In Appendix A, changes to Section 54.305 (Sale or transfer of exchanges) of the Commission's Rules and Regulations are proposed. If the Commission wants to encourage consolidation of areas or exchanges, it should simply eliminate this section, not make the elimination subject to a five year wait and an unserved percentage.

- Eliminate waste and inefficiency and "… improve incentives for rational investment and operation by companies operating in rural areas, and set rate-of-return companies on the path to incentive-based regulation."[3]
- Absent any limits, support is provided to both well run companies and companies "…with high costs due to or exacerbated by imprudent investment decisions, bloated corporate overhead, or an inefficient operating structure."[4]

In the NPRM, the Commission provides no specific evidence of pervasive waste, inefficiency, imprudent investments, bloated overheads or inefficient operating structures. In fact, other than assertions, there is no evidence at all to justify the proposed changes in Appendix A that would substantially harm all rural RoR ILECs. If the Commission in fact has any proof of these

---

[2] Changes proposed in Appendix A, are changes to the allocation of a rural RoR ILEC's costs between the interstate and intrastate jurisdictions in order to define the jurisdictional responsibility for recovering the costs. The Communications Act in Section 410(c) requires that a Federal-State Joint Board be established to consider changes like those proposed in the NPRM that will shift costs between the jurisdictions. The Commission cannot unilaterally propose and then order these changes, but must, according to the provisions of the Act, refer these proposals to a Joint Board for consideration and recommendation.

[3] NPRM, paragraph 157.

The assertion regarding waste and inefficiency may be correct for Competitive Eligible Telecommunications Carriers and Non-Rural ILECs, but it is incorrect for rural RoR ILECs. Unlike other recipients of USF funding, rural RoR ILECs are subject to State and Federal audits and NECA reviews of their costs and revenues. Additionally, the recent USAC audits should have put to rest the notion that there is widespread "waste, fraud and abuse" in the use of Federal USF. There were minimal and largely insignificant findings.

With regard to the misplaced notion that incentive regulation will incent deployment of broadband in rural areas and that rural ILECs should be "set on the path to incentive regulation":

Incentive regulation incents revenue maximization through:

- Deployment of capital investments for broadband and innovations only where sufficient revenues and earnings can be achieved. As a result, incentive regulation doesn't incent capital deployment for broadband and innovations for customers in price cap carriers' rural exchanges.
- Reduction in expenses – job losses, reduction in maintenance and customer service expenses in particular in the rural areas of price cap carriers.

On the other hand, RoR regulation, in combination with State and Federal Commission (as well as lender oversight) rules incents and requires efficient provision of high quality and innovative basic and broadband services to all customers in their service areas. Often in the area of telecommunications, economic theories are disproven by facts. The notion that RoR regulation based on actual embedded costs is outmoded and promotes inefficiency while incentive regulation based on forward looking costs promotes efficient outcomes is disproven by observable and demonstrable results. In fact, RoR regulation, with Commission oversight, has, unlike incentive regulation, continued to bring the benefits of efficient and innovative services, including broadband, to all consumers served by RoR ILECs, not just to an urban subset of consumers.

[4] Id., paragraph 171.

allegations, then it should deal with specific ILECs, with specific facts, to correct the alleged problems. Until the Commission has these specific facts, general and un-substantiated assertions cannot justify retroactive rule changes that will eliminate substantive amounts of revenue that the rural RoR ILECs and their lending institutions counted on to operate and pay for prudent and efficient network investments.

With regard to justification for the specific proposals, all the NPRM offers is:

- Safety Net Additive – The NPRM notes that this support has increased and there may be inadequate incentives for rural ILECs to operate efficiently.[5]

  Comment - If there is a concern with the rule, then rather than removing support retroactively for costs already prudently incurred, the rule should be modified to correct its alleged inadequacies on a going forward basis. The assertion that there "may" be a problem provides no justification to eliminate this support for existing costs.

- Local Switching Support (LSS) – The NPRM asserts that this support may not appropriately target funding to high cost areas or to areas unserved with broadband.[6]

  Comment – First, LSS is declining as existing circuit switches at the end of their useful life are replaced with soft switches. Second, LSS was not designed to provide support to unserved broadband areas; it was designed to provide support for high cost areas. Again, if there is a concern with the rule, then rather than removing support retroactively for costs already prudently incurred, the rule should be modified to correct its alleged inadequacies on a going forward basis. The assertion that there "may" be a problem provides no justification to eliminate this support as Appendix A proposes.

[5] Id., paragraph 184.
[6] Id., paragraph 190.

- Corporate Operations Expense – The NPRM asserts that these expenses do not appear to result from costs inherent in providing telecommunications services.[7]

  Comment – This assertion provides absolutely no justification for eliminating these expenses entirely from support calculations. In fact the assertion is belied in paragraph 195 of the NPRM, where these expenses are described as "…administration and management, accounting and financial services, legal services, and public relations." These are clearly costs inherent in, and necessary to any business including those providing telecommunications services. The total elimination of their recovery is inappropriate and based on inaccurate assumptions.

Corporate operations expenses primarily consist of costs associated with management, accounting and finance, regulatory, personnel, administrative and legal. Assuming that all corporate expenses are discretionary is simply wrong. A full phase-out of the recovery of corporate expenses presumes that rural LECs must not manage or administer their operations. This assumption is without merit as all companies require leadership and management. Without effective management, companies are apt to be less efficient and wasteful which is a key concern stated by the FCC in the NPRM. Eliminating corporate expense recovery ignores the fact that a major portion of such expenses are necessitated and incurred for regulatory compliance. Many of these compliance requirements are mandated by the FCC Rules. Rural RoR ILECs must comply with the Code of Federal Regulations. Rural RoR ILECs incur costs to keep their books and records in accordance to the Part 32 Uniform System of Accounts. Tariffs are filed in compliance with Part 61 and Part 69 of the FCC Rules. Jurisdictional cost studies and

[7] Id., paragraph 197.

access charge studies are prepared and filed in conjunction with Part 36 and Part 69 Rules. Rural RoR ILECs file information with the NECA Pool and State Regulators. Quarterly reports are filed for low income services (FCC 497), revenue (FCC 499), line counts, and universal service costs for HCLS (optional). Semi-annual reports are required for broadband services (FCC 477) and number resources (FCC 502). Annual information is prepared and includes cost forecasts for NECA, USF data and certification, revenue reporting (FCC 499), ICLS (FCC 507 and 508), annual cost studies for NECA, LSS projections, LSS true-ups, HCLF data. Additionally, annual reports are prepared and provided to State Commissions. The cost of these significant activities is accounted for as corporate expense and is not discretionary.

- Limit Total per Line Support to $3000 – The NPRM observes that this change would affect less than 20 ILECs and questions whether requiring consumers to pay for support above $3000 per-line is consistent with fiscally responsible universal service reform.[8]

  Comment - Again, if there is a concern with the existing rule, then rather than removing support retroactively for costs already prudently incurred, the rule should be modified to correct its alleged inadequacies on a going forward basis. The assertion that there "may" be a problem provides no justification to eliminate this support for existing investments as Appendix A proposes.

- Reduction of HCLS Allocation to Interstate – The NPRM only expresses concern that this change may be necessary because the current rule results in the federal fund bearing most of the burden for these costs.[9]

[8] Id., paragraphs 209 and 210.
[9] Id., paragraph 213.

Comment - Again, if there is a concern with the existing rule, then rather than removing support retroactively for costs already incurred, the rule should be modified to correct its alleged inadequacies on a going forward basis. The assertion that there "may" be a problem provides no justification to eliminate this support for existing investments as Appendix A proposes. Even if there were a basis provided in the NPRM for the proposed rule change (and there is not), the proposed rule does little to address the concern expressed in the NPRM. Because of the existing cap on the HCLF, the proposed rule does little but to redistribute the capped support, to the detriment of many rural ILECs and to the benefit of a few.

B. FINANCIAL ANALYSIS OF THE EFFECT ON INDIVIDUAL RURAL RoR ILECS OF THE USF CHANGES PROPOSED IN APPENDIX A OF THE NPRM.

The attached data and analysis provides the financial effect of the near term NPRM proposals on rural RoR ILECs. As can be seen from the Attached analysis (Lines 18 and 19) , rural RoR ILECs are currently having difficulty generating sufficient revenues to maintain quality operations and to repay loans. This difficulty stems primarily from two causes:

- Curbing USF fund growth by capping the existing High Cost Loop Fund (HCLF) - Currently the HCLF portion of the Federal USF is capped for rural RoR ILECs. As the rural RoR ILECs throughout the country continue to upgrade their networks, the total of their network costs recoverable form the HCLF exceeds the capped dollars that are available. As a consequence, and at odds with the Commission's view that it provides "…a stable 11.25 percent return…"[10], Rural RoR ILECs do not have the ability or opportunity to earn the Commission authorized return on their invested costs. In many

[10] Id, paragraph 165.

cases, this makes it difficult to repay the loans made for network investments and delays further network upgrades.

- Inaction by the FCC and a number of State Commissions in curbing revenue loss through intercarrier compensation arbitrage. The latest example is the loss of revenue and uncertainty caused by the FCC's apparent unwillingness to clearly indicate that VoIP services are subject to applicable intercarrier compensation charges.

In the long term, the loss of these revenues alone will impair the LEC's ability to provide high quality affordable services. The near term USF proposals will expedite this impact. If the Commission were to adopt the near term USF proposals contained in the NPRM, the analysis attached shows a further reduction of revenues that will result in a loss of up to 60% of the rural RoR ILEC's revenues. In most cases, loss of these revenues:

- Causes the rate of return to become negative, indicating that not only is there no return on equity but there is also no revenue available to pay the interest on debt incurred to deploy the telecommunications network. Instead there is a loss that will inevitably result in either substantial and most often unaffordable increases to customer rates or bankruptcy or both.
- Causes the TIER ratio to fall (sometimes substantially) below 1. This ratio indicates to the lender the ability of the rural ILEC to pay the annual interest on its debt. If the ratio falls below 1, an ILEC may not be able to pay that interest. With RUS loans, an ILEC may be considered by the lender to be in default if the TIER ratio falls below 1.

In summary, elimination of these revenues will be the final "nail in the coffin" for these ILECs and will make it impossible for these rural ILECs to:

- Pay for expenses and salaries, as well as principal and interest payments on loans made for network investments.
- Continue the investments necessary to upgrade their network so that all their consumers have access high quality basic and broadband service access at affordable rate levels.
- Continue to maintain the network so that quality service is provided and a COLR is available.

Quite likely, loss of these revenues will ultimately result in many rural RoR ILECs going at a minimum through bankruptcy and possibly out of business. Whichever is the case, the effect on the rural communities they serve will be devastating:

- There will be significant harm to rural economic development – businesses and residential customers would no longer have access to high quality voice and broadband service at affordable rate levels that are comparable to those offered in urban areas.
- Hospitals, clinics and schools would be disadvantaged – inability to obtain reliable high speed broadband service.
- Jobs at rural RoR carriers will be lost. Indirectly, jobs for suppliers and businesses that provide services to the rural RoR ILEC will be lost. This will have a secondary impact on businesses operating in rural communities. The salaries from individuals that lose jobs will no longer be available to purchase goods and services in rural community businesses.
- Loss of rural community tax base and revenues paid to other rural utilities (gas, electric and water), further harming the ability of the rural community to remain viable.

Beyond harming the rural community and consumers, the proposals if adopted, will result in:

- Loan defaults, and

- Loss of equity by rural RoR ILEC owners.

C. ANALYSIS ASSUMPTIONS

In preparing these analyses in Attachment 1, FWA assumed:

1. Projected changes to current USF funding (Lines 1 to 4) - Based on expected network cost changes. For the HCLF (Line 4), NECA forecasts of the nationwide average cost per loop were used.

2. Projected changes to customer lines (Line 6) and interstate intercarrier revenues (Line 8) - Based on historical trends and future expectations.

3. No CAF revenues during the time frame of the analysis (2010 to 2014) – It is clear from the NPRM that the near term CAF will be provided to areas with higher population densities and no current broadband service. These are areas that are not served by rural RoR ILECs.

4. Special access, intrastate USFs and local revenues do not change substantially (Line 9) – During the analysis period, local exchange revenue losses will likely be offset by special access revenue increases.

5. Lines 12, 13, 14 and 17 were estimated based on existing forecasts.

6. The proposed near term support changes are estimated on lines 20 to 24 – Estimated based on the rule changes and time frames proposed in Appendix A.
   - The corporate operations expense reduction is not separately shown, but is included with the changes to each existing support mechanism.
   - The HCLF changes were calculated with nationwide average loop cost estimates provided by NECA that were revised based on the interaction of the proposed changes and the existing HCLF cap.

IV. RURAL RoR ILECS ARE SUCCESSFULLY PROVIDING QUALITY ACCESS TO BASIC AND HIGH SPEED BROADBAND SERVICES. REFORM SHOULD NOT JEOPARDIZE THIS SUCCESS

During the debate regarding the future of universal service funding, the Commission should not overlook the fact that rural RoR ILECs in the United States are a success story in the provision of quality basic and advanced services at just, reasonable and affordable rate levels, as required by Section 254 of the Communications Act. Rural RoR ILECs have utilized revenues received (a) from their retail customers, (b) from wholesale customers that utilize the rural RoR ILEC networks to provide their services (intercarrier compensation), and (c) from the universal service funds to provide networks that bring not only quality voice services to customers, but higher and higher broadband service speed to all of the rural customers served by the rural RoR ILEC. These networks extend to the most remote customers including farms and small businesses where typically reliable competitive options are not available.

Rural RoR ILECs over time have consistently improved their networks and today are striving to deploy more fiber and state-of-the-art electronics in their networks. This success in the provision of basic and broadband services to customers of rural ILECs has been made possible by a number of factors:

A. Stable and predictable revenue that is used to maintain the existing network and services provided to customers and fund network upgrades. As RoR carriers, rural ILECs are able to recover via retail rates, intercarrier compensation and the universal service fund, their actual and efficient costs of providing service at a return level specified by the Federal and State regulators. This actual cost recovery (that is subject to Federal and State Commission audits) insures that revenues are available to deploy and maintain networks that provide quality basic and broadband services at affordable rate levels to all customers in high cost to serve rural RoR ILEC service areas.[11] Rural RoR ILECs rely heavily on stable and predictable revenues from intercarrier compensation and universal service funds to maintain and provide basic and advanced service in their service areas.

B. Access to low cost funding from the Rural Utilities Service (RUS) or similar lending agencies. Deploying state of the art fiber based networks in rural high cost to serve areas would not be possible for most rural RoR ILECs without long term loans from RUS or similar lending institutions. The lending institutions make these loans based on the expectation that the cost based recovery discussed above will be available to insure repayment of the loans by the rural RoR ILEC.[12] If, at this juncture, the Commission were to adopt the near term USF revisions

---

[11] Rural RoR ILECs have been efficiently and prudently upgrading their trunk and distribution networks by replacing copper with fiber for a number of years. The speed of the upgrades depends on the amount of debt financing the rural RoR ILEC is able to obtain and it ability to repay that debt. Many of the rural RoR ILECs have or are planning to replace their circuit based switches with soft switches so that their networks are entirely IP based. The objective of these upgrades was and is to provide a more reliable, higher quality network to serve customers. The same network that provides universal services can also provide high speed broadband access for all of the customers in the rural RoR ILEC service area.

[12] Policy decisions for decades in the telecommunications industry created a rate design that allowed the maintenance of affordably priced local rates in rural areas by relying on toll services to recover the remaining high costs to provide service in low customer density rural areas. When competition was introduced into the toll market, the rate design was changed to replace toll service revenue with access revenue. The policy was however still the same – affordably priced local rates were maintained by relying on state and interstate access revenue to recover the remaining high cost to provide service. Subsequent to the adoption of the Universal Service provisions of the Act in 1996, the Commission, and some State Commissions began to adopt a new cost recovery rate design that lowered access rates (and thus lowered toll rates) and moved the access revenues into universal service funds. The cost recovery moved into the universal service funds are primarily loop distribution costs (the High Cost Loop Fund and Interstate Common Line Service Fund– costs previously recovered in the Carrier Common Line access charge) and local switching costs (Local Switching Service fund – costs previously recovered in the local switching access charge).

Universal service funding is often incorrectly characterized as a government subsidy for rural RoR ILECS. It is not. It is, as briefly discussed above, revenue that previously was recovered in toll and access rates that recovers the annual operating cost to provide loop distribution and switching plant. Without these facilities, customers would have no service (basic or broadband). Rural RoR ILECs use the USF revenues to recover their costs and if applicable, to repay the loans that they took out to deploy these loop and local switching facilities and to maintain these facilities. If this portion of the rural RoR ILEC rate design were lost or significantly reduced, the choices faced by rural RoR ILECs would be to either raise local rates to unaffordable levels or to possibly default on loan payments and likely cease providing service. Either of these options is at odds with the Universal Service provisions of the 1996 Act.

proposed in the NPRM and significantly reduce revenue available to recover network costs, the result will be:

- Significant and unaffordable increases in local rates and/or
- Significant and unaffordable increases in rates for broadband services, and/or
- Default on loan payments, and
- The inability to continue to maintain and deploy telecommunications networks to all customers in the rural ILECs' service areas, and/or
- The inability to continue operations.

C. The ability to charge average wholesale rates for switched and special access through participation in National Exchange Carrier Association (NECA) pools. Recovery of a significant portion of costs associated with providing broadband services is made possible by the NECA pools. The NECA pools allow rural RoR ILECs serving high cost areas to recover their actual interstate cost of providing wholesale (intercarrier compensation) services while charging rates developed based on the average cost of the rural RoR ILECs participating in the pools. This process allows the rural RoR ILECs to (a) recover their access costs from the pools, (b) share the administrative costs of rate development and (c) charge similar interstate intercarrier compensation rates throughout the United States.

The above process has allowed the rural RoR ILECs to fulfill the objectives of the Act (Section 254) by continuing to maintain and deploy state of the art efficient networks that provide quality basic and broadband services at affordable rate levels. This continuing success should not be jeopardized by adopting the near term USF reform proposals in the NPRM that would deny the rural ILECs the ability to recover the cost of maintaining service and deploying necessary network investments. This course of action would inevitably lead to (a) deterioration of service quality, (b) the inability to fund further network upgrades so that all rural RoR ILEC customers have access to high speed broadband access, (c) unaffordable increases in rural customer rate levels, and, (d) defaults on repayment of loans made by RUS and other lending institutions. The USF and intercarrier compensation mechanisms do require reform if broadband access is to be made universally available in the United States. However, the problems with the operation of these mechanisms were not caused by the rural RoR ILECs' receipt of its cost based USF. Instead, reform should focus on problem areas, not wholesale reform that would harm the areas where the USF has successfully met the Act's objectives – rural RoR ILEC service areas.

V. ADDITIONAL INFORMATION

Please note - Attachment 2 of these Comments contains data requested by the Commission Staff.

VI. CONCLUSION

The proposals put forth in Appendix A involving (a) Safety net additive, (b) LSS, (c) Corporate operations expense, (d) $3000/line support cap and (e) HCLF modifications should not be adopted by the Commission because:

1. If adopted, the negative financial impact will drive many of the rural RoR ILECs out of business with disastrous economic consequences (and job losses) for the rural areas they serve.
2. If adopted, there will be significant numbers of loan defaults including many RUS loan defaults.

3. The proposals, if adopted, would amount to retroactive ratemaking with retroactive disallowances of prudently invested network costs that would have been supported under the Commission rules in effect when the investments were made.

4. There is absolutely no substantive justification for the proposals in the NPRM.

Instead of adopting these ill conceived and unsupported proposals, the Commission should consider and adopt the proposal developed by the rural ILEC Associations that (a) works within the objectives set forth by the Commission in the NPRM, and (b) provides sufficient and predictable USF revenues to:

- Recover the cost of, and maintain network facilities already deployed or committed to deploy through the American Reinvestment and Recovery Act (ARRA).
- Support future investments, with reasonable cost constraints.
- Provide quality voice and broadband services with rates and services that are comparable to those offered in urban areas.

Respectfully submitted,

FRED WILLIAMSON & ASSOCIATES, INC.

By, Paul Cooper

President, Fred Williamson & Associates, Inc.

8282 S. Memorial Drive, Suite 301

Tulsa, OK 74133

Phone: 918-298-1618

Email: pcooper02@earthlink.net